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Eric B. Herr
Vice President-Economics

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CAPITAL SPENDING CHECK-UP AND FINANCING SURVEY

Rocked by recession and high interest rates, American business is lowering its capital spending targets for 1982.

At present, business plans to raise expenditures for new plant and equipment by 6.9% this year to $344.76 billion. That's according to McGraw-Hill's Capital Spending Check-Up and Financing Survey, conducted in January and February. A McGraw-Hill survey conducted last fall, however, found that firms then expected to boost 1982 capital expenditures by 9.6%.

Both surveys showed that business anticipates 1982 prices of new plant and equipment to rise by about 9.5%. So when capital spending plans are translated into "real" terms by adjusting for inflation, the result is that expenditures are currently expected to drop this year by more than 2%. Last fall, survey respondents planned to hold real expenditures flat in 1982. About 500 companies, accounting for a third of U.S. capital spending, responded to both surveys.

The deterioration of capital expenditure plans during the past few months is not surprising, given continued economic slump and persistently high interest rates. Nor would it surprise some that business, faced with adverse economic conditions, is not jumping to take

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advantage of the potentially huge pro-investment tax benefits enacted last August. According to the survey, business as a whole (not just survey respondents) hiked 1982 capital budgets by only about $1 billion in response to the Economic Recovery Tax Act that featured provisions such as faster write-off of plant and equipment and increased investment tax credits. Perhaps more disappointing, 1983 capital expenditures will blip by only around $2 billion as a direct result of the new tax act, the survey found.

The survey is not all bleak, however. The brightest light is business' expectation that cash flow in 1982 will jump by more than 12%. And that's on top of an estimated 15% jump in cash flow last year. Admittedly, last year's rise partly reflects the fact that cash flow in 1980 was depressed by recession. Nonetheless, if expectations materialize, companies by the end of this year should be in a financial position to boost capital expenditures in 1983.

It's still too early for firms to have solid spending plans for next year, but the survey does suggest that plans have been raised: Last fall, plans called for less than a 5% rise in 1983 new plant and equipment purchases; plans now are for a 8% increase. The bad news here is that due to the drop in 1982 plans, the projected two-year change in spending is little changed from last fall.

The survey also brings, or rather confirms, some other bad news: Companies will seek to raise external funds for capital expenditures primarily from short-term sources. If these plans are realized, it implies continued upward pressure on short-term interest rates and continued delay in restructuring balance sheets already groaning from heavy short-term indebtedness.

Spenders Not Spurred by Supply-Siders

U.S. companies' capital spending plans for 1982 provide strong evidence that tax breaks alone are not enough to get business investment moving. According to the government, new favorable tax provisions should save corporations $9.5 billion and $18.1 billion in taxes in 1982 and 1983, respectively. The savings would come from faster depreciation of new plant and equipment, increased investment tax credits, and leasing provisions allowing no-profit or low-profit companies to sell their tax credits. (This last provision is currently under attack in Congress.)

All of these rules, as well as others that benefit corporations, were signed into law last August as part of the Economic Recovery Tax Act. Thus, firms had several months to analyze the new tax benefits before the survey was carried out in January and February. The new tax law notwithstanding, however, respondents said they plan to increase investment in new plant and equipment by just 6.9% this year (Table I). Because these firms expect plant and equipment prices to rise by 9.4% in 1982 (Table II), it means they intend to decrease real purchases of capital goods by 2.3% this year (Table II).

Thus, contrary to Reagan Administration hopes pinned to the new tax rules, 1982 will not likely witness a boom in business investment. What's more, survey respondents report that the new rules caused them to hike planned investment by only 0.3% in 1982 and 0.6% in 1983 (Table III). That translates into about $1 billion this year and $2 billion next--$3 billion in cumulative capital spending increases in return for $28 billion in tax cuts. On the face of it, the Reagan

Administration doesn't seem to be getting much return on its investment of political capital.

However, these early returns on the new tax act should perhaps not be judged too harshly. For besides the tax cut, practically nothing else is currently pushing American business to invest. On the contrary, companies face strong disincentives to buy new plant and equipment:

- Industry is using a mere two-thirds of its capacity, so that production must increase sharply before many companies would even consider capacity expansion.

- New orders for manufacturers' products have been trailing down, providing little reason to expect that capacity utilization will pick up soon. Manufacturers' sales and profits are also on the decline.

- Corporate cash flow, while up significantly from depressed 1980 levels, is still far from robust. In real terms, in fact, cash flow has not yet recovered to the peak reached right before the 1980 recession.

- With housing suffering its worst slump since World War II, construction of stores and other commercial buildings geared to residential areas is also slumping. With housing not likely to make much of a comeback this year, and with consumers' incomes weak due to unemployment, retailers and other builders of commercial structures have little need to expand capital expenditures.

- The office building boom of the past five years is likely to lose its momentum this year as vacancy rates creep up, thus deterring plans for construction of new space.

- Interest rates remain at near-record levels. But worse yet, because of huge federal budget deficits and tight monetary policy many financial observers expect rates to trend higher later this year. Continued high rates may therefore prevent some companies from investing in the second half of this year even if a recovery is underway.

Confronted by these major investment foes, and armed solely with a tax cut that can be triggered only by investing first, it is not

surprising that firms plan to pare their real capital expenditures this year. Statistical evidence reinforcing the survey finding that real spending will decline in 1982 is presented in Chart I.

Chart I. Capital Spending Indicates Point Down

| | Quarters of 1981 | | | |
|---|---|---|---|---|
| | 1Q | 2Q | 3Q | 4Q |
| Non-Defense Capital Goods Orders (Billion $) | 281.8 | 287.2 | 287.8 | 268.1 |
| Construction Contracts-Commercial and Industrial (Millions of Square Feet) | 1012.4 | 980.0 | 866.2 | 873.2 |
| Corporate Cash Flow (Billion $) | 282.4 | 270.5 | 279.2 | NA |
| Gross National Product (Billions of 1972 $) | 1516.4 | 1510.4 | 1515.8 | 1497.6 |
| Business Equipment Output (Billions of 1972 $) | 112.7 | 114.9 | 113.7 | 110.2 |
| Industrial Operating Rate (%) | 77.9 | 76.9 | 76.2 | 71.4 |
| Interest Rate on Corporate Bonds (%) | 14.4 | 15.2 | 16.3 | 16.0 |

NOTE: Dollar and square foot figures are at seasonally adjusted annual rates.

The conclusion here is not that the tax cut is failing, but that 1982 capital spending will be weak because the economy is weak and financing is expensive. At the same time, the survey does suggest that tax law alone is a slim reed on which to build an investment boom, hence a sustained economic expansion.

Steel is Strongest

While most industries expect to cut real capital expenditures this year, and while a few plan to reduce spending even before taking inflation into account, iron and steel firms currently project a stunning increase of 40%. In part that represents a concerted industry effort to raise productivity, cut costs, and thus mount a successful assault against imports. Hence, steel makers plan to spend heavily on equipment such as continuous casters and electric furnaces.

In part, however, the 1982 steel projection appears outsized because it is compared to a depressed 1981 when the industry pared capital outlays by 5%. That, in turn, reflected extremely tough operating conditions for the industry in 1980, during which profits and operating rates plunged. Operating rates are currently back down to very low levels, and with end markets such as autos and capital spending weak it is very possible that steel's 1982 capital spending gain will come in far under 40%.

Besides steel, industries planning the largest spending increases include instruments (19.9%), machinery (15.4%), and other nondurables (14.7%).

On the negative side of spending, four industries plan drops in 1982 outlays--nonferrous metals, textiles, mining, and gas utilities.

Possibly the most interesting result, however, is petroleum, which foresees a capital expenditure rise of just 8.2% this year. That compares with annual gains of more than 25% in the past two years, and if realized would be the smallest advance in petroleum capital spending since 1973 when outlays declined by some 2%. Since petroleum companies account for about 8% of all business' capital expenditures, a spending

slowdown in this key industry weakens the overall capital spending picture.

Causes of the petroleum deceleration appear straightforward. For one thing, demand for refined products is way down, so that much refinery capacity stands idle. (Refinery capital spending still goes forward, however, as companies revamp facilities to handle greater varieties of crude oil.) Moreover, conservation may have permanently cut demand for gasoline and home heating oil, so even if the economy turns up soon it doesn't necessarily mean consumer demand for oil products will turn up as much.

Another reason projected petroleum industry spending is not as robust as in previous years is that plastics markets are soft, implying that petrochemical spending may be off. But possibly the major reason why the oil industry is reining in capital spending is that the world price of crude oil has been declining. Thus return-on-investment projections for new oil wells may have been lowered, resulting in less spending on petroleum exploration and production (by far the biggest part of total petroleum industry expenditures.)

Cutbacks in exploration from record levels attained last year may also help explain the dip in the mining industry's projected capital expenditures. That's because companies specializing in petroleum exploration and production are considered mining companies. Refiners and integrated oil companies comprise the petroleum industry listed in the manufacturing sector.

1983: Any Light at the End of the Tunnel?

If purchases of new plant and equipment rise only 7% this year, as projected, the result would be a three-year period of stagnation in capital expenditures.

Chart II. Investment Cycles

| Period | Average Annual % Change in Real Plant & Equipment Purchases |
|---|---|
| 1947-50 | -0.1% |
| 1950-56 | 6.4 |
| 1956-61 | -0.1 |
| 1961-66 | 10.0 |
| 1966-68 | 0.2 |
| 1968-73 | 4.5 |
| 1973-76 | -2.3 |
| 1973-77 | 0.5 |
| 1976-79 | 8.5 |
| 1979-82 (est.) | -0.4 |
| 1947-1981 | 3.7 |

If spending does not then pick up in 1983, the resulting four years of no growth in real investment would rival the slumps of the mid-1970s and late 1950s (see Chart II). One intriguing parallel between today and the late 1950s is that the cure prescribed for the investment malaise in both cases was pro-investment tax cuts. A major difference between the two periods, however, is that the 1962 Kennedy tax cuts did help spur an investment boom. The Reagan cuts thus far have not. And as already noted, business is not reacting to the Reagan cuts with much enthusiasm.

The disparate results of the Kennedy and Reagan tax cuts suggest that things other than tax rates are significant in stimulating capital

spending. One of these things is interest rates, which were miniscule in 1962 compared with today's rates, as shown in Chart III. Another is that the Reagan cuts came as the economy was waffling and industrial operating rates were low; the Kennedy cut came as the economy was strengthening, thus sparking business optimism and a perceived need for new plant and equipment. For the time being, then, the tax cut deck seems stacked against President Reagan.

What does this analysis point to in 1983? Very simply, if the economy does not recover in the second half of 1982 and if interest rates don't subside, tax cuts by themselves will not kick off a 1983 surge in capital spending.

According to the survey, however, companies currrently expect to hike 1983 spending by 8%, which is fairly strong for this early in the planning process. Moreover, companies expect a healthy 12% jump in cash flow this year (Table IV) on top of a 15% gain in 1981. If that expectation materializes, business should be in good shape to finance capital projects in 1983.

This mildly encouraging message from the survey is, nonetheless, too fraught with uncertainty to be taken as a sure sign that 1983 will kick off the much-awaited investment recovery. One major warning signal: Business' lackluster response to the tax cut, indicating that management takes a cautious view of the future. Another signal: Companies seem to be shifting capital pojects from 1982 to 1983, not planning new projects for next year. If the economy doesn't get going fast enough and soon enough, these projects could be delayed still further.

## Chart III. Investment Tax Cuts: Reagan vs. Kennedy

| Year | Federal Revenue Loss from Business Tax Cut (Billions of Dollars) | Federal Deficit as % of GNP | Unemployment Rate (%) | Manufacturers' Capacity Utilization Rate (%) |
|---|---|---|---|---|
| 1962 (Tax cut)* | $2.0+ | 0.7% | 5.5% | 81.6% |
| 1963 | 2.0+ | surplus | 5.7 | 83.5 |
| 1964 | 2.0+ | 0.5 | 5.2 | 85.6 |
| 1981 (Tax cut)* | 4.5 | 2.1 | 7.6 | 78.5 |
| 1982 | 9.5 | 3.2 | 9.2 | NA |

| | Long-Term Bond Rate (%) | % Change in Real New Plant & Equipment Expenditures |
|---|---|---|
| 1962 | 4.3 % | 6.4% |
| 1963 | 4.3 | 3.0 |
| 1964 | 4.4 | 14.6 |
| 1981 | 14.3 | 0.3 |
| 1982 | 14.3 | -2.3 |

NOTE: Tax revenue loss is the reduction in taxes under new laws compared to what would have been paid under old laws. Estimates of these losses in 1962-64 are from the 1963 Economic Report of the President. Estimates for 1981-82 are by the Reagan Administration. The 1982 unemployment rate, long-term bond rate, and budget deficit share of GNP are McGraw-Hill forecasts.

*Both tax cuts included faster write-off of plant and equipment and investment tax credits. The 1981 cut also included leasing provisions allowing companies to sell tax credits.

Financing: Little Faith in the Long Term

Uncertainty over 1983, not to mention 1982, is due in no small measure to unsettling developments in financial markets. And the survey suggests that corporations remain leery of those developments. The evidence: Despite the fact that corporate balance sheets are skewed toward short-term debt, companies say that most of their external funds this year will be short-term. Nearly half the survey respondents plan to do most of their external financing at banks, compared to 40% in a survey taken a year ago. The year-ago survey also showed that 5% of companies expected to raise most of their external funds through equities; in the current survey that share is down to 3%.

The implication of these figures is that companies do not believe long-term rates will subside sufficiently to make bond financing attractive or to help spur stock market prices. Thus, even though many companies would presumably like to restructure their balance sheets (i.e., retire short-term debt), they don't want to get locked into high long-term interest rates. With most of the action at the short end of the credit markets, a corollary is that the prime rate this year will be under continuing upward pressure.

Companies' uneasiness over credit markets was likely buttressed by the Administrations's announcement (while the survey was underway) that budget deficits would near the $100 billion mark. Thus even with capital spending weak in 1982, credit demands by the federal government will probably keep interest rates high.

In part, the arithmetic of demand for funds can be worked out from the survey: Companies plan to finance about a quarter of their capital

expenditures this year from external sources (Table V). If plant and equipment spending comes to $345 billion, as planned, that would require $86 billion from credit market sources. Perhaps a couple billion more would be needed for inventory financing. All told, external financing in the $90 billion range would mean roughly a $10 billion reduction in private nonfinancial corporate credit demands from last year.

However, companies seek funds for purposes other than capital spending--to buy other companies, for example. Yet even if these other demands for funds were kept to a minimum this year, increased federal government demands would more than offset the easing in private credit demands. So unless private demands subside even more significantly than appears probable, or unless savings rise dramatically, interest rates will remain sky-high in 1982.

Notes on the Survey

Results in this report are based on the responses of 497 firms to a survey taken in January and February. These firms account for one-third of capital spending in the country (Table VII). For capital spending, firms supplied dollar estimates of future plant and equipment expenditures. Estimates for each year were summed by industry, and percent changes between years were calculated. Each industry's percent change for 1981-82, derived from the sample firms, was then applied to the industry's total capital spending in 1981 in order to derive the industry's total estimated capital spending in 1982. The 1982-83 percent change was applied to the estimated 1982 total industry figure to derive the industry's total estimated 1983

capital spending. Firms with extreme percent changes in spending (outliers) were removed from the sample on a year-by-year basis. The source of the actual 1981 capital spending is the U.S. Department of Commerce.

Once each industry's total estimated capital spending was derived, the figures were summed to derive estimates for the various aggregate groupings--durables, nondurables, all manufacturing, all nonmanufacturing, and all business.

All data presented in this report other than the capital spending figures are based on percentage--rather than dollar--answers supplied by the sample firms. Percentage responses were weighted by size of firm within an industry to derive industry figures. Figures for the aggregates were then derived by weighting each industry by size.

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NOTE: The other durables category listed in the table includes lumber, furniture, jewelry, toys, and transportation equipment other than autos and aerospace. Other nondurables includes apparel, tobacco, printing and publishing, and leather. The trade and services category includes retail and wholesale trade, banking, holding companies, insurance companies, hotels, laundries, and personal and business services. The communications and other category includes construction firms and transportation services other than airlines and railroads.

TABLE I

PLANS FOR CAPITAL SPENDING IN THE U.S.
(Billions of Dollars)

| INDUSTRY | 1981 Estimated | 1982 Planned | 1981-82 % Change | 1983 Planned | 1982-83 % Change |
|---|---|---|---|---|---|
| Iron & Steel | $ 3.12 | $ 4.37 | 40.1% | $ 4.80 | 9.8% |
| Nonferrous Metals | 3.46 | 3.30 | -4.6 | 3.71 | 12.5 |
| Electrical Machinery | 10.51 | 11.16 | 6.2 | 11.68 | 4.7 |
| Machinery | 13.13 | 15.16 | 15.4 | 17.58 | 16.0 |
| Autos, Trucks & Parts | 10.72 | 11.00 | 2.6 | 11.93 | 8.5 |
| Aerospace | 6.51 | 6.99 | 7.4 | 6.43 | -7.9 |
| Fabricated Metals | 2.92 | 3.00 | 2.8 | 2.97 | -1.2 |
| Instruments | 2.29 | 2.75 | 19.9 | 3.13 | 14.1 |
| Stone, Clay & Glass | 3.30 | 3.74 | 13.3 | 3.74 | -0.1 |
| Other Durables | 6.98 | 7.01 | 0.4 | 6.21 | -11.4 |
| TOTAL DURABLES | 62.94 | 68.48 | 8.8 | 72.18 | 5.4 |
| Chemicals | 13.75 | 15.24 | 10.8 | 15.99 | 4.9 |
| Paper & Pulp | 6.72 | 7.25 | 7.9 | 8.38 | 15.6 |
| Rubber | 1.83 | 2.04 | 11.5 | 2.46 | 20.6 |
| Petroleum | 26.43 | 28.60 | 8.2 | 31.48 | 10.0 |
| Food & Beverages | 8.28 | 8.51 | 2.7 | 8.05 | -5.3 |
| Textiles | 1.61 | 1.60 | -0.9 | 1.64 | 3.0 |
| Other Nondurables | 6.70 | 7.68 | 14.7 | 7.48 | -2.6 |
| TOTAL NONDURABLES | 65.32 | 70.92 | 8.6 | 75.48 | 6.4 |
| TOTAL MANUFACTURING | 128.26 | 139.40 | 8.7 | 147.66 | 5.9 |
| Mining | 16.80 | 16.28 | -3.1 | 20.81 | 27.8 |
| Railroads | 4.28 | 4.41 | 3.1 | 6.90 | 56.4 |
| Airlines | 3.83 | 4.31 | 12.5 | 5.24 | 21.5 |
| Electric Utilities | 29.38 | 32.74 | 11.4 | 31.26 | -4.5 |
| Gas Utilities | 8.56 | 8.26 | -3.5 | 8.55 | 3.5 |
| Communications & Other | 45.22 | 48.76 | 7.8 | 51.60 | 5.8 |
| Trade & Services | 86.27 | 90.60 | 5.0 | 100.24 | 10.6 |
| TOTAL NONMANUFACTURING | 194.34 | 205.36 | 5.7 | 224.60 | 9.4 |
| ALL BUSINESS | 322.60 | 344.76 | 6.9 | 372.26 | 8.0 |

NOTE: Dollar amounts are rounded to two decimal places. Percent changes are calculated from unrounded data. Dollar figures represent total industry capital expenditures, not just the expenditures of companies responding to the survey. The source for 1981 expenditures is the U.S. Commerce Department.

TABLE II

INFLATION EXPECTATIONS

| INDUSTRY | Expected % Change in Plant & Equipment Prices 1981-82 | Expected % Change in "Real" Capital Spending 1981-82[a] |
|---|---|---|
| Iron & Steel | 7.8% | 30.0% |
| Nonferrous Metals | 8.1 | -11.8 |
| Electrical Machinery | 8.3 | -2.0 |
| Machinery | 8.8 | 6.1 |
| Autos, Trucks & Parts | 8.0 | -5.0 |
| Aerospace | 9.0 | -1.5 |
| Fabricated Metals | 8.6 | -5.3 |
| Instruments | 8.1 | 10.8 |
| Stone, Clay & Glass | 8.3 | 4.7 |
| Other Durables | 7.3 | -6.4 |
| TOTAL DURABLES | 8.3 | 0.5 |
| Chemicals | 9.4 | 1.2 |
| Paper & Pulp | 9.1 | -1.1 |
| Rubber | 9.8 | 1.5 |
| Petroleum | 11.1 | -2.6 |
| Food & Beverages | 9.1 | -5.8 |
| Textiles | 6.4 | -6.9 |
| Other Nondurables | 8.8 | 5.4 |
| TOTAL NONDURABLES | 9.9 | -1.2 |
| TOTAL MANUFACTURING | 9.1 | -0.4 |
| Mining | 10.3 | -12.1 |
| Railroads | 8.8 | -5.2 |
| Airlines | 9.6 | 2.6 |
| Electric Utilities | 9.5 | 1.8 |
| Gas Utilities | 9.7 | -12.0 |
| Communications & Other | 8.1 | -0.3 |
| Trade & Services | 10.1 | -4.6 |
| TOTAL NONMANUFACTURING | 9.5 | -3.5 |
| ALL BUSINESS | 9.4 | -2.3 |

[a] Percent change in capital spending from Table I adjusted for expected capital goods inflation from first column of Table II.

TABLE III

THE REAGAN TAX CUT

% Industries Plan to Increase Capital Spending as a Result of the Economic Recovery Tax Act of 1981[a]

| INDUSTRY | % Increase 1982 | % Increase 1983 |
|---|---|---|
| Iron & Steel | 4.1% | 1.4% |
| Nonferrous Metals | 0.3 | 0.3 |
| Electrical Machinery | 0.2 | 0.3 |
| Machinery | 0.7 | 0.9 |
| Autos, Trucks & Parts | 0.2 | 0.2 |
| Aerospace | 1.8 | 4.9 |
| Fabricated Metals | 0.2 | 0.2 |
| Instruments | 0.0 | 0.0 |
| Stone, Clay, & Glass | 0.0 | 0.0 |
| Other Durables | 0.2 | 0.4 |
| TOTAL DURABLES | 0.7 | 0.9 |
| Chemicals | 0.6 | 0.8 |
| Paper & Pulp | 0.0 | 0.7 |
| Rubber | 0.2 | 0.2 |
| Petroleum | 0.0 | 0.0 |
| Food & Beverages | 0.4 | 0.5 |
| Textiles | 0.7 | 0.4 |
| Other Nondurables | 0.0 | 0.0 |
| TOTAL NONDURABLES | 0.2 | 0.3 |
| TOTAL MANUFACTURING | 0.4 | 0.6 |
| Mining | 1.4 | 3.5 |
| Railroads | 0.1 | 2.1 |
| Airlines | 0.0 | 0.0 |
| Electric Utilities | 0.0 | 0.0 |
| Gas Utilities | 0.4 | 0.4 |
| Communications & Other | 0.0 | 0.0 |
| Trade & Services | 0.3 | 0.4 |
| TOTAL NONMANUFACTURING | 0.3 | 0.5 |
| ALL BUSINESS | 0.3 | 0.6 |

[a] This tax law, enacted last August, included several provisions intended to spur capital investment. Among the provisions were accelerated depreciation, investment tax credits, and leasing regulations allowing firms to sell tax credits they could not use to firms that could use the credits.

TABLE IV

CASH FLOW

| INDUSTRY | ----------Percent Change---------- 1980-81 Estimated | 1981-82 Expected |
|---|---|---|
| Iron & Steel | 51.3% | -1.3% |
| Nonferrous Metals | -9.1 | -22.3 |
| Electrical Machinery | 3.8 | 6.7 |
| Machinery | 42.5 | 12.1 |
| Autos, Trucks & Parts | 45.9 | 23.5 |
| Aerospace | 11.4 | -12.8 |
| Fabricated Metals | 10.1 | 18.2 |
| Instruments | 11.6 | 16.9 |
| Stone, Clay & Glass | 9.8 | 11.8 |
| Other Durables | -8.7 | 6.4 |
| TOTAL DURABLES | 21.0 | 7.8 |
| Chemicals | 11.8 | 13.7 |
| Paper & Pulp | -4.2 | 11.7 |
| Rubber | 23.9 | 8.1 |
| Petroleum | 10.1 | 9.9 |
| Food & Beverages | 12.4 | 5.9 |
| Textiles | -18.3 | -17.4 |
| Other Nondurables | 13.7 | 18.4 |
| TOTAL NONDURABLES | 9.3 | 10.5 |
| TOTAL MANUFACTURING | 15.0 | 9.2 |
| Mining | 30.1 | 25.3 |
| Railroads | 43.3 | 35.0 |
| Airlines | -4.0 | 12.0 |
| Electric Utilities | 22.6 | 10.3 |
| Gas Utilities | 27.4 | 14.0 |
| Communications & Other | 10.7 | 3.7 |
| Trade & Services | 9.9 | 18.0 |
| TOTAL NONMANFACTURING | 15.0 | 14.2 |
| ALL BUSINESS | 15.0 | 12.2 |

NOTE: Cash flow is defined in this survey as change in retained earnings plus depreciation charges.

TABLE V

INTERNAL VS. EXTERNAL FINANCING

| INDUSTRY | % of Capital Expenditures: Financed Internally 1981 (Estimated) | Financed Internally 1982 (Expected) | Financed Externally 1981 (Estimated) | Financed Externally 1982 (Expected) |
|---|---|---|---|---|
| Iron & Steel | 85.5% | 80.9% | 14.5% | 19.1% |
| Nonferrous Metals | 58.9 | 47.2 | 41.1 | 52.8 |
| Electrical Machinery | 84.2 | 87.7 | 15.8 | 12.3 |
| Machinery | 73.0 | 94.0 | 27.0 | 6.0 |
| Autos, Trucks & Parts | 76.7 | 74.8 | 23.3 | 25.2 |
| Aerospace | 88.9 | 69.6 | 11.1 | 30.4 |
| Fabricated Metals | 77.1 | 88.7 | 22.9 | 11.3 |
| Instruments | 87.5 | 84.8 | 12.5 | 15.2 |
| Stone, Clay & Glass | 92.9 | 90.9 | 7.1 | 9.1 |
| Other Durables | 58.1 | 99.7 | 41.9 | 0.3 |
| TOTAL DURABLES | 77.1 | 83.8 | 22.9 | 16.2 |
| Chemicals | 89.4 | 87.3 | 10.6 | 12.7 |
| Paper & Pulp | 74.8 | 72.3 | 25.2 | 27.7 |
| Rubber | 78.1 | 99.5 | 21.9 | 0.5 |
| Petroleum | 72.0 | 76.2 | 28.0 | 23.8 |
| Food & Beverages | 89.6 | 86.9 | 10.4 | 13.1 |
| Textiles | 93.0 | 94.8 | 7.0 | 5.2 |
| Other Nondurables | 81.0 | 64.7 | 19.0 | 35.3 |
| TOTAL NONDURABLES | 79.8 | 79.4 | 20.2 | 20.6 |
| TOTAL MANUFACTURING | 78.5 | 81.6 | 21.5 | 18.4 |
| Mining | 73.4 | 80.0 | 26.6 | 20.0 |
| Railroads | 75.4 | 64.5 | 24.6 | 35.5 |
| Airlines | 46.7 | 45.9 | 53.3 | 54.1 |
| Electric Utilities | 41.3 | 40.5 | 58.7 | 59.5 |
| Gas Utilities | 63.6 | 59.1 | 36.4 | 40.9 |
| Communications & Other | 74.0 | 77.7 | 26.0 | 22.3 |
| Trade & Services | 76.3 | 77.2 | 23.7 | 22.8 |
| TOTAL NONMANUFACTURING | 69.1 | 70.3 | 30.9 | 29.7 |
| ALL BUSINESS | 72.8 | 74.8 | 27.2 | 25.2 |

NOTE: Firms were asked to give the percent of capital expenditures financed with internal funds; but if financing for capital expenditures could not be broken out from total financing needs, firms were asked to state the percent of total financing done internally.

TABLE VI

EXTERNAL FINANCING

WHERE FIRMS EXPECT TO OBTAIN EXTERNAL FUNDS IN 1981

| | ---% Companies Indicating Their Main Source Will Be:-- | | | | | |
|---|---|---|---|---|---|---|
| INDUSTRY | Banks | Bond Markets | Commercial Paper | Insurance Companies | New Stock | Other |
| Iron & Steel | 40% | 40% | 10% | 0% | 0% | 10% |
| Nonferrous Metals | 86 | 14 | 0 | 0 | 0 | 0 |
| Electrical Machinery | 60 | 0 | 10 | 0 | 0 | 30 |
| Machinery | 63 | 11 | 16 | 0 | 5 | 5 |
| Autos, Trucks & Parts | 83 | 17 | 0 | 0 | 0 | 0 |
| Aerospace | 100 | 0 | 0 | 0 | 0 | 0 |
| Fabricated Metals | 58 | 0 | 9 | 17 | 8 | 8 |
| Instruments | 60 | 20 | 20 | 0 | 0 | 0 |
| Stone, Clay & Glass | 50 | 0 | 17 | 17 | 0 | 16 |
| Other Durables | 40 | 0 | 20 | 20 | 0 | 20 |
| TOTAL DURABLES | 62 | 11 | 11 | 5 | 2 | 9 |
| Chemicals | 33 | 33 | 27 | 7 | 0 | 0 |
| Paper & Pulp | 53 | 29 | 18 | 0 | 0 | 0 |
| Rubber | 83 | 0 | 0 | 0 | 0 | 17 |
| Petroleum | 44 | 44 | 12 | 0 | 0 | 0 |
| Food & Beverages | 61 | 13 | 13 | 0 | 0 | 13 |
| Textiles | 67 | 11 | 0 | 11 | 0 | 11 |
| Other Nondurables | 56 | 22 | 0 | 11 | 0 | 11 |
| TOTAL NONDURABLES | 53 | 25 | 12 | 4 | 0 | 6 |
| TOTAL MANUFACTURNG | 58 | 17 | 11 | 5 | 1 | 8 |
| Mining | 88 | 0 | 0 | 0 | 0 | 12 |
| Railroads | 33 | 17 | 0 | 0 | 0 | 50 |
| Airlines | 29 | 14 | 0 | 0 | 14 | 43 |
| Electric Utilities | 6 | 77 | 6 | 0 | 11 | 0 |
| Gas Utilities | 36 | 43 | 21 | 0 | 0 | 0 |
| Communications & Other | 30 | 30 | 20 | 0 | 10 | 10 |
| Trade & Services | 62 | 10 | 5 | 9 | 0 | 14 |
| TOTAL NONMANUFACTURING | 33 | 40 | 8 | 2 | 6 | 11 |
| ALL BUSINESS | 48 | 26 | 10 | 4 | 3 | 9 |

TABLE VII

SAMPLE SIZE

| INDUSTRY | % of Capital Spending By Companies in the Survey Sample |
|---|---|
| Iron & Steel | 88.8% |
| Nonferrous Metals | 26.7 |
| Electrical Machinery | 21.4 |
| Machinery | 20.0 |
| Autos, Trucks & Parts | 72.4 |
| Aerospace | 28.8 |
| Fabricated Metals | 23.2 |
| Instruments | 55.9 |
| Stone, Clay & Glass | 12.4 |
| Other Durables | 10.5 |
| TOTAL DURABLES | 33.9 |
| Chemicals | 47.3 |
| Paper & Pulp | 35.7 |
| Rubber | 30.1 |
| Petroleum | 86.0 |
| Food & Beverages | 15.3 |
| Textiles | 89.4 |
| Other Nondurables | 21.8 |
| TOTAL NONDURABLES | 58.0 |
| TOTAL MANUFACTURING | 45.8 |
| Mining | 8.6 |
| Railroads | 46.2 |
| Airlines | 47.9 |
| Electric Utilities | 54.7 |
| Gas Utilities | 42.9 |
| Communications & Other | 48.9 |
| Trade & Services | 3.6 |
| TOTAL NONMANUFACTURING | 25.8 |
| ALL BUSINESS | 33.5 |